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THIS AMENDMENT:

☐ Passed ☐ Passed as amended by☒ **RECEIVED** ☐ Not Offered☐ Withdrawn

ORIGINAL

2008 FEB -8 P 2: 35

AZ CORP COMMISSION PROPOSED AMENDMENT #2

(reduced to comply with Revised Recommended Order dated November 15, 2007)

DATE PREPARED: February 8, 2008

COMPANY: Arizona Public Service CompanyDOCKET NOS: E-01345A-05-0816, ~~E-01345A-05-0826~~, and E-01345A-05-0827OPEN MEETING DATES: February 12 and 13, 2008AGENDA ITEM: U-22

Page 3, between lines 5 and 6 INSERT new Findings of Fact to read:

"11. On November 28, 2007, Commissioner Mayes sent a letter to the Parties in this docket in which she asked the Parties to file a comprehensive analysis of APS' proposal for treating the Schedule 3 proceeds as revenue, rather than CIAC. In that context, Commissioner Mayes asked that the analyses address a number of specific questions concerning the short-term and long-term advantages and disadvantages of these two different accounting treatments for both APS and its customers.

12. On December 6, 2007, RUCO filed its response to Commissioner Mayes' November 28, 2008, letter. In it, RUCO stated that it is unable to conclude if it would be appropriate to treat the Schedule 3 funds as CIAC or revenue because there are too few data to permit a sufficient examination of the question. RUCO further stated that, if the Commission were to permit APS to treat the Schedule 3 funds as revenue, the Commission should require APS to re-file its other tariffs to provide a corresponding revenue decrease to be consistent with the revenue requirement established in Decision No. 69663.

13. On December 10, 2007, Commissioner Pierce filed a letter in this docket in which he concurred with Commissioner Mayes' request for an analysis of APS' proposal. He further suggested that the Parties consider alternative treatments of the Schedule 3 funds, including one that would treat the proceeds as revenue but attribute a zero or near-zero cost-of-capital to those revenues.

Arizona Corporation Commission

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14. Also on December 10, 2007, Commissioner Mayes filed another letter in this docket in which she acknowledged Commissioner Pierce's and RUCO's filings and concluded that the Commission should conduct an evidentiary hearing to properly scrutinize all of the issues relating to the treatment of the Schedule 3 funds.

15. On December 20, 2007, APS filed an extensive response to Commissioner Mayes' November 28, 2007, letter. In it, APS reiterated its arguments in support of treating the Schedule 3 funds as revenue. APS indicated its openness to discussing the issues in a hearing in connection with the Company's compliance filing, but also stated APS' position that a full traditional, evidentiary hearing is not necessary.

16. On January 29, 2008, Staff filed its report in response to Commissioner Mayes' November 28, 2007, letter. At the conclusion of its analysis, Staff maintained its recommendation that the Commission should require APS to record the Schedule 3 fees as CIAC. However, Staff further recommended that, if the Commission were to direct APS to record the Schedule 3 fees as revenue, the Commission should concurrently either order APS to defer such fees for crediting to ratepayers, or order APS to reduce non-fuel base rates by the amount of fees expected to be annually collected because of the Schedule 3 change.

17. Having reviewed the parties' analyses, we find that they provide ample basis for our conclusion that Schedule 3 fees paid to APS are CIAC and must be recorded as such."

Page 3, STRIKE lines 11 through 13, INSERT a new Conclusion of Law No. 3 to read:

"3. The Commission, having reviewed the application, Staff's Memoranda dated November 2 and 15, 2007, RUCO's filing dated December 6, 2007, APS' filing dated December 20, 2007, and Staff's filing dated January 29, 2008, concludes that the Schedule 3 tariff filed on October 24, 2007, as amended according to Staff's recommendation in Finding of Fact No. 6, complies with Decision No. 69663 and is in the public interest."

Page 3, between lines 17 and 18, INSERT a new Ordering Paragraph to read:

"IT IS THEREFORE ORDERED that Arizona Public Service Company shall record all Schedule 3 fees as Contributions in Aid of Construction."

Make all conforming changes